

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

DOMINICAN REPUBLIC

STRENGTHENING OF FOREIGN TRADE MANAGEMENT

(DR-0148)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Fabrizio Operti (RE2/SC2), Project Team Leader; Carolyn Robert (INT/ITD); Javier Jiménez (LEG/OPR); Armando Chamorro (COF/CDR); José Juan Gomes (RE2/OD3); Beatriz Abizanda (RE2/SC2); and Damaris León (RE2/SC2).

STRENGTHENING OF FOREIGN TRADE MANAGEMENT

(DR-0148)

EXECUTIVE SUMMARY

Borrower and guarantor:	Dominican Republic	
Executing agency:	Secretariat for Foreign Relations	
Amount and source:	IDB: (OC)	US\$5,000,000
	Local:	US\$ 555,555
	Total:	US\$5,555,555
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	3.5 years
	Disbursement period:	3 years
	Interest rate:	Variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar
Objectives:	<p>The Project's objective is to improve public-sector management of foreign trade in the Dominican Republic by strengthening the public sector's ability to formulate, negotiate, and implement effective trade and export promotion policy aimed at contributing to the establishment of incentives and opportunities for increasing and diversifying the Dominican Republic's exports. Its specific objectives are to strengthen the public sector's ability to: (i) present and negotiate initiatives that serve the country's interests in bilateral, regional, and multilateral international trade negotiations; (ii) administer and follow through, in an effective manner, on the commitments (rights and obligations) stemming from existing and future trade agreements; (iii) undertake vigorous efforts to increase and diversify exports of the Dominican Republic to the rest of the world; (iv) support the private sector by helping it to take advantage of the new trade opportunities arising out of trade agreement negotiations; and (v) consult and inform civil society regarding the formulation, negotiation, and implementation of the country's trade policy.</p>	

Description: To achieve its objectives, the Project would involve activities under the following four components:

Component 1: Strengthening trade negotiation management (US\$2.2 million): This component is designed to boost the country's technical and managerial capacity to conduct and participate in international trade negotiations. It includes delivery of technical advisory support, training, technological resources, and information technology to support the country's trade negotiations agenda including, at the bilateral level, negotiations with the United States of America and Canada; at the multilateral level, the WTO, FTAA, and Cotonú negotiations; and, horizontally, the Association of Caribbean States and CARICOM negotiations.

Component 2: Strengthening managerial capacity to implement and administer trade agreements (US\$961,000). This component's objective is to strengthen the country's technical and managerial capacity to implement and administer trade agreements currently in force, especially its commitments within the WTO and FTAA frameworks, as well as present and future bilateral free trade agreements.

Component 3: Strengthening technical capacity to promote exports (US\$856,000): This component includes, first, the development and implementation of a National Export Promotion Program (Programa Nacional de Promoción de Exportaciones, PNPE), coordinated and executed jointly by the public and private sectors. The PNPE comprises the preparation of studies of exportable products; preparation of product-market fact sheets; creation and dissemination of a "country image;" and participation in specialized trade fairs. Second, this component includes the development and implementation of a "one-stop" window for export processing at the Exports and Investments Center of the Dominican Republic (CEI-RD), designed principally to automate and centralize information related to the country's exports. A third objective of this component is to strengthen and develop human resources in the exports sector through a Training Plan for Export Facilitation, targeted at both businesspeople and public officials in a number of specific export-related issues.

Component 4: Strengthening consultation, dissemination, and participation mechanisms (US\$412,000) The objective pursued in this component is to raise the level of public knowledge and awareness of the growing importance of foreign trade and of the challenges and opportunities it opens up. This is to be achieved by instituting mechanisms for coordination and consultation, dissemination, training, and participation, directed at the private sector and civil society.

Special contractual clauses:

Special conditions precedent to the first disbursement under the loan. In addition to the standard contractual clauses, the following will also be required: (i) formation of the project execution team (PET); and (ii) approval of the project Operating Regulations.

Special condition precedent to disbursement of Component 1 resources: approval of an interagency cooperation agreement between the Secretariat for Foreign Relations (SRE) and the State Secretariat for Industry and Commerce (SIC) for activities relating to bilateral free trade agreement negotiations with the United States under project Component 1.

Special condition precedent to disbursement of Component 2 resources: approval of an interagency cooperation agreement between the SRE and CEI-RD for activities under project Component 2.

The Bank's country and sector strategy:

The demands posed by the international trade agenda have induced the countries in the region to examine carefully the institutional challenges they face. Anticipating these challenges, the Bank has created a fast-track trade facility to enable borrowing countries to request support for strengthening and streamlining public sector institutions with foreign-trade-related responsibilities.

The Bank's country strategy envisages, among other priority areas for action, enhancing the effectiveness of the democratic State and improving the business environment. In particular, the Bank's country paper establishes that the strategy seeks to contribute, on the one hand, to bolstering the ability of institutions to address the needs and aspirations of the population and, on the other, to lifting restrictions on the productive sector business environment. For these goals to be achieved, policies and institutional arrangements must be fashioned, and programs executed, that cater to the needs of the country's population and businesses.

Furthermore, this operation is explicitly included in the current country strategy and in the country strategy update presented to the Board of Executive Directors of the Bank in May 2003. Thus, this is not an isolated operation by the Bank in this sector but, rather, part of a comprehensive Bank strategy with the country designed to support the development of the private sector and of the productive sectors, which includes, along with other programs, the program to support the transition to competitive agriculture, the national competitiveness program, and technical cooperation projects currently underway for free trade zones, taxation, and customs.

Environmental and social review:

The activities to be financed through the Program are not expected to generate any direct environmental or social impacts. The Program does, nevertheless, seek to have a positive impact on the environment given that it would include: training on specific issues having to do with the links between international trade and the environment; technical support on how to formulate competitive environmental policies permitting production and sustainable marketing of natural resources; and technical support on environmental certification of production. The Program will, in particular, finance training of officials involved with trade negotiations in approaches to environmental issues that relate to international trade. The Program will not necessarily have a direct social impact. However, improving the country's external trade relations will be socially beneficial, inasmuch as increasing exports and investment are key factors for economic growth and job creation.

Benefits:

By focusing its activities and resources on strengthening the institutions in the Dominican Republic that are responsible for managing foreign trade, this project will enhance the performance of the public sector. Specifically, the project will help strengthen the Dominican Republic's position in international trade negotiation fora and thereby contribute to opening up new business outlets for the country's goods and services. The project also aims to develop specific institutional and organizational capacities to enhance public sector management with respect to implementation of trade agreements to which the country is already a signatory, and to enhance export promotion. In addition, the project seeks to provide a channel for participation by the private sector and Dominican civil society, including, in particular, key shapers of public opinion, such as members of parliament and journalists. In this way, the project will facilitate open, public dissemination and knowledge of foreign-trade-related information and decisions. By the same token, it will help strengthen the democratic culture of the country through transparent, participatory practices.

In the medium and long term, smoother operating government and sector institutions will stimulate economic and commercial activity, especially trade and both domestic and foreign investment.

Risks:

The success of the project will depend to a large extent on proper coordination among public sector entities, on the one hand, and between them and the private sector and civil society, on the other, with respect to foreign trade. First, coordination mechanisms within the government have not always been effective, mainly due to frequent changes in institutional responsibility for implementing the country's trade policies. Second, nongovernmental coordination

mechanisms have not been as effective as they could have been, because the private sector was inadequately represented in existing consultative and coordination fora. In addition, public-sector bodies responsible for foreign trade have not made a systematic effort to improve coverage of foreign trade information in the media. Nor have they provided civil society with easily accessible channels of communication and participation. The project seeks to mitigate these risks, first, by revamping government working procedures, especially those of the SRE and the SIC, with a view to institutionalizing permanent interagency coordination mechanisms and others between the public sector and the private sector and civil society; second, by establishing and activating open and transparent communication channels to civil society and the private sector; and, third, by striving to provide training programs for groups that shape public opinion, such as lawmakers and journalists.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Retroactive recognition of expenditures:

Retroactive financing of US\$495,000 equivalent will be charged against the financing, to reimburse project-related expenditures (see detailed explanation in paragraph 2.27).

Retroactive financing of up to US\$100,000 equivalent will be charged against the local counterpart, to reimburse project-related expenditures (see detailed explanation in paragraph 2.28).

Procurement:

The selection and hiring of consulting services and all procurement envisaged in the project must be conducted in accordance with Bank procedures and policies. Contracts for the procurement of goods and related services for sums of US\$250,000 or more will be awarded by means of international competitive bidding. Procurement of goods and related services and the hiring of consulting services for lower sums shall in principle be governed by local laws, provided they do not contradict the relevant Bank policies. No works contracts are envisaged for this project. The project's Procurement Plan can be found in Annex II of the Project Report.

Key performance indicators and monitoring:

The project has key performance indicators for each component. Those for the component entitled **Strengthening trade negotiation management** include: reduction in the number and percentage of tariff and nontariff barriers to trade in goods and services with the United States, and broader coverage for trade in goods and services in the Dominican Republic's agreements with Panama, Central America, and CARICOM. A key indicators for the component entitled

Strengthening managerial capacity to implement and administer trade agreements is an increase in the number and percentage of implementation mechanisms instituted and used for the Dominican Republic's four agreements with Panama, the United States, Central America, and CARICOM. Indicators for the component entitled **Strengthening technical capacity to promote exports include**: increased export opportunities for Dominican businesses and better and more extensive information about international markets; a quantitative and qualitative increase in the information available abroad on Dominican goods and services; and a reduction in the average processing time required for export approvals. Indicators for the **Strengthening consultation, dissemination, and participation mechanisms** component include: an increase in the number of trade policy initiatives and proposals coming from private-sector entities and civil society organizations; an increase in the number and percentage of articles on foreign trade in local media by journalists who have received training under the project; and increased participation and foreign trade policy presentations by lawmakers during parliamentary debates on the subject. The performance indicators for each activity are listed in the project Logical Framework attached as Annex I.

**Joint
information of
the Bank and
the Executing
Agency:**

Project activities will proceed in accordance with schedules established in annual work plans (AWPs), broken down by components and agreed upon with the Bank during annual monitoring meetings. The AWPs will contain, in accordance with the project Logical Framework, at least the following information: (i) an evaluation of activities carried out and progress made in the immediately preceding period; (ii) a breakdown of activities to be carried out in a given year; (iii) half-yearly targets and goals for each component and the indicators to be used to measure the extent to which they are met; (iv) the half-yearly execution timetable with the respective costs involved; and (v) financing requirements for the period. The first AWP can be found in the project technical files.

The project execution team (PET) and the Bank's Country Office, with support from headquarters, will hold annual follow-up meetings to evaluate progress made over the past year and compliance with the criteria established for disbursements and technical execution of the project, and to agree on their respective annual plans.

The PET must keep separate accounting and financial records for the project in such a way as to permit: (i) identification of financial transactions using project funds, separate from other funds handled by the SIC and CEI-RD; and (ii) preparation of the project's financial statements.

Every year the PET shall deliver the audited financial statements of the project to the Bank within 120 days after the close of the fiscal year. They must be audited by an independent firm of external auditors acceptable to the Bank. The cost of the external audit will be charged to the project loan.